Shaping the future of Australian Payments
A submission to the Payments Council by
Controlabill Pty Ltd

Introduction

Controlabill and its Directors thank the Council for the opportunity to comment.

We are a very small start up player in the payments space with patents granted and pending over a critical part of the payment system both here and in the USA and Canada.

Before specifically addressing the six questions the following introduction represents the views and perspectives of Controlabill Pty Ltd with regard to the payments industry in Australia and that of its Founder Director.

In terms of credentials I have a background as a 26 year banker in both the UK and Australia and as a former Executive in Marketing in 3 of the big 4 banks. I was also the Marketing lead for Australia's largest energy retailer and a significant utility biller in the private sector. I also have utility exposure in public sector. I believe this background is of use when considering the various parties roles – Customers, Biller and Banks I would like to provide the following as Controlabill's and my insight into payments in this country.

The payments division in most banks was and perhaps still is a little understood backwater of the mainstream divisions. Notwithstanding that payments it is a huge contributor to the bottom line of the banks. It is a highly complex and technical business and seldom sees much publicity unless something goes wrong.
It has a higher profile in respect to Corporate customers, but has little direct involvement with Consumer and SME markets outside of Cards divisions. I believe as do many management consultants that Banks have relied on this complexity to act as a barrier to entry to competition. I like those same consultants believe this complexity will be side stepped by new entrant digital disruptors inside the next decade.

At the heart of every bank/customer relationship is ability to make the regular recurring payments in particular those payments which must come first such as Mortgage, Utilities, Insurance,s Transport etc. Yet the financial services industry has done little to make this easy. It is true that there is a vast array of products and transaction channels that banks and FI's have made available in the market but the consumer must find them and put it together any way they can.
It is my belief that this is one of the core reasons for 'Share of Wallet' disbursement. The role of banks and products they have not yet delivered are the reason for the spread of share of wallet experienced. That most households carry multiple cards is not because of a need for the differences in brand or product offerings but rather the ability to manage payments and the differences in timing between receipts and payment s.

No current single service manages the household budget, manages the timing differences and separates the essential payments and savings from the discretionary spend in a convenient manner. This is the platform, I believe, where digital disruption will come from. Perhaps Google or Apple will provide a simple easy to understand transaction platform, budgeting service and account and an easy to understand dashboard on your mobile device to manage them all in one secure space.

When this arrives it will fundamentally change everything for financial services companies and most will not survive. It has happened before in other markets, the touch interface iPhone and its key competitor Samsung and Google revolutionised services in telephony at the expense of huge incumbents like Nokia and Motorola. Video libraries are almost a thing of the past , Cars are blue tooth and new ones don't even have cd players. The world of mapping directories is over. The music and entertainment industry is changed forever.
This will happen in financial services almost as rapidly. Most of the activity and innovation at present is in the high transaction low value and most wallets in this space are just alternatives to plastic as debit card is an alternative to cash.
Plastic will give way to NFC, and Bluetooth LE. Applepay and i Beacons while in their infancy will prevail as the utility is greater. I believe the card schemes will struggle or may even be subsumed. There are too many to mention Silicon Valley start-ups in this space but sooner or later they will turn to the payment space that does the heavy lifting - direct debit or direct payment or pre- authorised debit to round out a meaningful service to the consumer.

Perhaps the principles of Consumer and B2B marketing seem still far from the payments industry in this country. The next couple years will see a need to change that .
Maslow's hierarchy of needs relies on a cornerstone- the ability to supply or pay for the basics and gain respect for the ability to do that without stress. The efficient acquisition and payment for these services leads to peace of mind. Peace of mind is a major driver in financial services. Yet in real terms this is poorly delivered on by the financial industry.
Even in the most customer focussed organisations there are silos of Mortgages, Transaction Products (cheque and savings), Cards, Wealth and Protection each with their own vertical and their own P&L. This makes business casing horizontally across them problematic for incumbents
Yet consumers and businesses don't operate this way and a major disruption of this model is imminent as the new players don't have this problem.

Desirable Characteristics

The major four and fourteen desirable characteristics are somewhat internally focussed and while appropriate tests of the desirable characteristics of a robust payments system they lack the necessary customer focus to develop a 10 year strategic plan. In my view a number of customer focussed questions need to be asked also.

The paper looks at the transaction channels and the shifts yet fails to look properly at the user's requirements and what is driving the usage and trends. For instance the heavy lifting (by Value)in the payments space is done by Direct Debit and Bpay,(the rest of the world does not have BPAY so innovation from oversees will not come in this space) and they are very different pull and push systems. What is driving the usage trends? Direct debit is growing globally on the back of multiple convenience factors –set and forget (pulled by biller assuming you have the money in the account at the right time) avoidance of late payment fees(at one stage households were paying hundreds of dollars in late payments in Australia) and now of course there is a possible black spot of your credit reference file if you just forget. Have push payments lost their attraction by the sheer volume necessary as billers move to more frequent billing and payment plans?
What is provided at the macro level, the data that is made public(including that of the RBA and APCA) lacks the behavioural and demographic granularity and insights to drive strategy.   The simple question of who is using what and why is not answered and in doing so It fails to examine the consumer/ business behaviour and how that is changing and why, segment by segment . I feel that if the payments industry in Australia cannot answer these questions it will struggle against focussed competitor activity. Unless it has a strong understanding of what is at risk and pretty much it's all at risk, it will be commoditised and this is the view shared by a number of Consulting firms such as

McKinsey and BCG.   I feel fairly confident Apple and Google can already identify the wealthy households in this country and if this is true incumbents might need to be concerned.

Is the scope wide enough?
The recurring payments space process starts with the authority yet this is not it would appear in the scope. Yet the authority drives the relationship with the bank and the biller and drives the subsequent transaction. I doubt any one can quantify them or their churn, modification or cancellation, yet this is a huge driver for the industry. Whoever gets this first will sit on a very valuable asset.
Managing the authority is a pain point for the consumer and the biller. Households have to manage a growing number of authorities which are difficult to set up through ad hoc processes, difficult to change and to cancel. This issue was recently highlighted on the ABC Checkout program and a friend of mine who lost her credit card spent days re-establishing 15 of them. It doesn't have to be this way!
It is probable that the top 200 billers have 90% of the direct debit market yet each run separate systems to manage authorities at huge expense(many millions of dollars per biller) and to lots of customer confusion as each website, interface, form and process is different . In other markets where they don't have BPay direct debit penetration is much higher, why is that and what are they doing better?
In the UK BACS promote direct debit for the whole industry and have tools to manage them for consumers. Perhaps in Australia it is the billers who should syndicate to drive efficiency for their preferred receipting channel. We have already developed a tool superior to that of BACS and stand ready to help billers collectively and drive this efficiency gain.
There is a need for discussion of the connectivity to accounts and how they are used to facilitate transactions and manage budgets.   There is a need to re-examine account portability to facilitate competition of those accounts which is impeded by the difficulty in moving Direct Debits which can be so much simpler than the solution provided by the recent APCA review.

Undoubtedly this lack of analysis and product integration will be addressed probably by a digital disruptor who will offer an integrated account using mostly Direct Debit for recurring bills and by consequently identifying discretionary spend.
These integrated services will be offered to the highest value segments first disrupting not just the transaction economics but also the entire product economics of the customer.

As most of the worlds big brands move to the examination of the customer experience and continuous improvement and to segmented understanding of the user value proposition many incumbents risk being sidestepped not just in their payments business because if payments are lost so is the Big Data, the Mortgage and Wealth and Protection Products. The silos of the Australian banking system stand in the way of seeing the whole relationship value that is risked by being a payments innovation laggard.
Google for instance is currently sweeping the globe for patents in this space and they have no legacy business economics held back by cross subsidy issues of the incumbents, they or Apple could control the top 10% of all relationships within the time frame of this document using one simple service.

Question 1

Do Resilience, Efficiency, Accessibility and Adaptability as discussed in Section 2 address the desirable characteristics for the Australian payments system? Are there other characteristics that are more appropriate? Why?

Firstly, perhaps sustainability should be moved to resilience it would seem more appropriate there.

Secondly perhaps ‘Customer Focussed’ could be fifth criteria.
What is the customer experience? Could the industry answer this?
This might address the achievement of customer researched outcomes, usage patterns both past and intended. Segments might be identified as to their payments usage and characteristics.
Whole of wallet value might address what is at risk for the industry.
End to end processes of access from accounts to budgeting may be revealing.
The inclusion of authority management to ensure payments look at an end to end process.
Customers have said they want ease of portability, this should be re addressed as there are far cheaper options to achieve this than MAMBO and the solutions APCA came up with for DDR transfer that would save Biller participants hundreds of millions of dollars. Again we stand ready to assist the industry.

Thirdly, ‘Transparency’ may be another characteristic addressing pricing and rules for instance ‘Tap and Go’ diversions to credit not savings accounts and incurring MSF. Not well understood until ALDI passed on the charge.
Perhaps the Council that has a wider association base than APCA should take on a wider communications role also.

Under ‘competitiveness’ this simply doesn’t go far enough as certain payment mechanisms are controlled by a few players and should perhaps be centralised under the RBA such as Direct Debit where competitors require to be ‘sponsored in’ by a few incumbents
Being internationally competitive and looking to the UK and BACS and perhaps SEPA etc for improvement is not specific.
How would we know we are best of breed?

Under innovation how would this be encouraged and measured.

As an Australian business with a patented innovations in payments that are well researched with consumers and able to drive significant cost saving and revenue to the industry we have found it difficult to gain traction with incumbents either singularly or as a collective. We would much prefer to be able work with Australian Businesses or associations than having to look to international competitors to work with.

Overall in this section what would the success factors look like how will the characteristics be measured and against what benchmark.

Question 2

Are there any other current trends, aside from those outlined in Section 3, we need to take into account in developing the Australian Payments Plan?

Global Trends to patentable new services is, I think, new to financial services providers here in Australia. Disrupters don’t want equitable access and level playing field they want patents and barriers to competition evidenced by Apple, Google and Global payments.
When they (not If) arrive they will side step existing players and have the scale to enforce their IP. Existing players will not be able to acquire them to bring a halt to their activity nor will they be able to wait them out. These players have the scale and resources far beyond the scale of our incumbents.

Question 3

What are your views on “digital disruption” being the primary force for change affecting Australian payments over the next 10 years?

Smart phones and tablets are becoming ubiquitous in all first world countries this will break country models in terms of product and services. A product in America or Asia will require little modification to work here.

Globally Consumers and SMEs have a need to manage their business and personal financial affairs, a common model will suit most of them as direct debit is the heavy lifter globally in this space often with payment penetrations far higher than Australia.

Carrying plastic will disappear in the next 10 years and current card schemes will find it difficult to transition as the plastic is the brand and the offering. This is nothing that couldn’t be bettered by Google and Apple with NFC and Bluetooth LE , i Beacons etc. What has been built by schemes over decades will be replaced in months.

The cheque account and the savings account will give way to the full function wallet. Those that get this right and cherry pick first and stay ahead of the functionality curve or operate under patent will survive the rest will find what’s left very difficult. As a previous banker, segmentation of the market illustrated an extreme version of Pareto’s Law with the top 10% of customers earning for a financial services provider more than 100% of EBIT.

I expect the transition will be swift one it starts just like transition from Nokia and Motorola to Apple and Google and Samsung.
Players such as Intuits Mint will struggle also as predictive tools supercede hindsight budget analysis. The pieces of the puzzle are already in place there but no one has yet put them together.
Imagine the service on a phone where you salary comes in and phone app has calculated how much you need to set aside to meet your regular payments and handles that automatically and manages your savings objectives thus identifying what you have left to spend on food, clothing entertainment etc is cardless and absolutely secure using biometrics to authorise discretionary payments. These pieces are coming together for the disruptors.
Imagine the ease of use and peace of mind and the value proposition. Imagine the data available for the provider for cross selling.
Not very long ago Centrelink introduced Centrepay which pays essential bills first and now has 500k thousand users (that is zero to 500 k in just a few short years) and is a much cruder version than Controlabill’s system but this demonstrates the consumer desire to get their financial affairs under control. As Centrepay works currently it is expensive for both Centrelink and the billers but there is a better and easier way!
This new payment and budgeting service when it arrives, and patent protected, will disrupt far more than just payments. Imagine the mortgage provider who offers this holistic service to the exclusion of others. Imagine the financial planner who offers this to the exclusion of the others.

Question 4

What are your views on our forecast of longer-term trends for Australian payments, outlined in Section 4? Are there other factors to consider?

I would tend to agree with the macro assumptions however, I would tend to believe that globalisation of product solutions will occur in the time frame. Globally the best customers will be cherry picked toward the latter end of five years and profitable solutions for the remaining customers will be difficult and user pays.
To avoid this, incumbent players will need to get ahead of the curve with their own patented solutions either collectively or singularly and get them to their customers first to lock them in.

Question 5

To achieve the desirable characteristics for the payments system in the next 10 years, what should the Australian payments industry consider doing collaboratively on issues such as;

Digital identity,

Currently digital identity is being developed by the disruptors in voice, eye and fingerprint all on the smart phones each of these is far better than existing measures.

Managing the range of payment systems (including the future of cheques and direct entry)?
There are countries that have already taken the step to remove cheques and this is inevitable here also. Beyond that the Australian market needs to focus its energy on innovation rather than rationalisation.

Ensuring users have the information they need to make informed decisions in a complex market?

Other than common system information this is likely to be proprietary and unworkable. Having said that there are huge shortfalls in what is available on the usage of the current system at even an aggregated level

Ensuring the domestic regulatory framework / standards setting remains responsive?

The payments industry need to see its part in an integrated offering and needs to facilitate what the customer will want not just what it provides. The Regulator needs to be the vanguard for change
It is well understood that a customer considers its primary bank the one that does its regular payments yet there is little competition here with too much operational entanglement .
In the energy industry various Regulators would not allow self regulation until two years of competitive churn exceeding 15 % pa had been experienced I doubt that is the case with the primary transaction account.
Pushing for this level of churn avoids product stagnation and fosters innovation.
It is also probably important to question self regulation where the interests of the various parties differ. Where the maintenance of the status quo for various parties is a cheaper option than change.

Question 6

What else might the industry do collaboratively to achieve the desired characteristics??

Firstly what is the industry –Banks, FI's Billers Start ups? The answer is probably different depending on your view your market and your resources.

Small start-ups find it difficult to be involved we cannot get a voice at APCA so this submission is the only way we can get a voice.

We could for instance offer to work with a 'Biller Collective' to improve the penetration of their preferred payment channel – Direct Debit. In the UK this is managed by BACS who act with the billers to get marketing scale around the features and benefits of Direct Debit. BACS also provide a range of smart phone apps to help consumers. In Australia the banks are unlikely to do this because they own Bpay and charge more per transaction. Again, product substitution or cannibalisation gets in the way of what the customer wants.

Billers in the meantime have separate systems separate business models all confusing for the consumer and they individually promote the channel. In the billers I worked for it was not uncommon to budget a few hundred thousand dollars to promote direct debit to customers. That budget does not go far individually but through a collective may be many $millions. It is good to see some billers on the Payments Council. It would be good to see room for Start-ups as well. Perhaps there could be as a forum to cross-fertilise ideas.

As previously mentioned my company has been granted patents in a synergistic space to wallet design we would be delighted to work with any collective of banks who would also like to fast track in this space.

We noted also that Government undertook a review of Centrepay recently, many of its recommendations could be fixed by Controlabill to the benefit of the community and the billers.

Or we could work collaboratively with all three Banks, Billers and Government to ensure we stay at the forefront of global Innovation and consumer expectations. We simply don't have the resources to do it ourselves and raising capital here in Australia is much harder than in America.

We feel sure what we offer can make managing authorities easier for consumers and save billers millions we are also sure we can provide a base platform for a wallet from the strength of patent backing.

We hope the Payments Council look to this submission in the spirit of its intent, which is to be able to collaborate with the payments industry in Australia.

Yours sincerely

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